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July 12, 1993

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Mr. Mark Nadel
Federal Communications Commission
Rm. 544
1919 M Street
Washington, D.C. 20554

Dear Mark,

Please find enclosed a discussion of the economic and operation impacts of Billed Party Preference. Thank you for the opportunity to contribute more information

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Billed Party Preference is a __Bad Idea__

by
Steven J. Hogan, President & CEO
LinkUSA Corporation
July 12, 1993

Billed Party Preference (BPP) was conceived to benefit the consumer -- to eliminate uncertainty about how operator-assisted calls are processed and how much they cost. We believe that a careful examination of BPP will show that not only will it raise the cost of providing the service, but it is also anti-competitive and therefore will work to the long term detriment of the consumer.

A full understanding of the types of long distance providers is needed in order to assess how BPP would affect them and, more importantly, their customers. In particular, we are concerned about the third tier carriers, the smallest players in the facilities-based interexchange carrier market. These are carriers with less than 120 million in annual revenues.

Data from the FCC's Industry Analysis Division shows us the nature of third tier carriers, the nature of their markets, their revenues, and overall market share:

- Third tier carriers are typically regional carriers. Of the 361 long distance carriers purchasing equal access from LECs in March 1992 the largest percentage, 78.7%,(or 284 carriers) serve between 1 and 4 states; while, only 6 carriers (1.7%) serve 45 or more states.

- The number of third tier carriers continues to grow, surging from 163 in March 1986 to 513 in 1993.

- The market share of companies other than AT&T, MCI, and Sprint has grown from 2% in the first quarter of 1984 to 8.6% in 1988 and again to 12.2% in 1992. Since 1984, the revenues generated by third tier carriers have increased from $414,000,000 to $3,765,000,000 by 1991, an increase of over 900%.

Third tier carriers generally enter the telecommunications market offering 1+ long distance services to the business community at prices significantly less than larger carriers. Once established, these companies may expand into other markets including residential services. A recent survey reveals that many third tier carriers __plan__ to introduce new, enhanced services such as travel card (25%), operator services (21%), and residential services (14%). These new services will enable the third tier carriers to further increase their market share only if they can provide services equal to or better than the major carriers at lower prices.

The ability of these carriers to compete is predicated on quality customer service, responsive product design, and competitive rates. A recent article in *Business Week* emphasized the variety of calling plans in the market which offer substantial savings:

> *"[B]e prepared to shop: The race is no longer just among American Telephone & Telegraph, MCI, and Sprint. Other carriers, although not as heavily advertised, are aggressively going after consumers and small businesses, and they may be cheaper while offering competitive service."*

Companies that do not provide direct dial service, but focus entirely on providing operator-assisted calling are sometimes grouped with the third tier, especially when only operator-assisted services are under consideration, as in the case of BPP. The two types of companies are actually quite dissimilar, however. Unlike companies which only provide operator services, third tier carriers are beginning to supply operator-assisted calling as part of an overall strategy to meet the needs of their existing customers; they recognize that offering great customer service and lower prices only retains customers up to a point. It is particularly important in a discussion of operator-assisted calling and BPP, to differentiate between these types of companies.

Operator-Assisted Calling -- Today

BPP only affects callers away from home. These callers today have a number of *alternative billing methods* available, including; 1) charging the call to another telephone number (collect and third party calling); 2) using the calling card issued home calls" are made by consumers using these types of cards. And the percentage is growing dramatically.

BPP ostensibly is designed to help the first three types of callers.

The Impact of Billed Party Preference

If we accept the information contained in the various BPP fillings with the FCC, we must infer that:

1. It will cost a lot of money to implement BPP, possibly as much as $500 million,

2. BPP is likely to increase the cost-per-call and the time required to place a call.

3. It will take a long time, perhaps years to fully implement BPP. During this interval, consumer confusion will most likely increase.

4. The position of the various entities in their BPP filings is driven by their own self interest, and in many cases directly conflicts with the interest of the consumer.

5. The consumer will receive the lowest common denominator of service reminiscent of pre-divestiture days, rather than the benefits derived from competition.

To understand the impact of BPP, consider that, while communications companies would most assuredly incur costs for the equipment upgrades and the potential for manual labor, particularly during the transition (there being many different claims as to exactly what the conversion costs would be,) the real issue with the transition is that the public switched network is comprised of many different types of usually one away from home -- a transient caller. The implementation period would thus be extremely confusing, as the consumer travels about and encounters various stages of the implementation process, having to relearn the system at each new location.

One intriguing part of the BPP process particularly affects the customers of third tier carriers, that is the regional, low cost suppliers. Most of the suggested implementations of BPP require these consumers to pre-select (or have selected for them) one carrier when at home and another when away from home. This

It appears that the goal of Billed Party Preference is to give the consumer a way to dial operator-assisted calls so that the service provider -- and the provider's rates -- are known to the consumer. Currently, however, a consumer has the right to know who the preselected operator service provider is for any telephone; to ask the provider to disclose how much a call will cost prior to placing the call; and to access a different provider if they don't like the looks of either of the first two things, all courtesy of TOCSIA. These elements would appear to satisfy the needs BPP was conceived of to fill, and yet, they must not, or BPP would not still be alive. We believe that the problem is not an insufficiency in the rules of TOCSIA, but a lack of structure and enforcement around their implementation.

The unblocking requirement clearly has had an effect. A significant investment of both time and money has been made by payphone owners, aggregators and others to allow consumers to select a carrier for zero-dialed calls. It would appear that consumers are already dialing around the presubscribed OSP in increasing numbers, based on the FCC final report to Congress on its implementation of the TOCSIA law. On the basis of data submitted by major operator service providers, the report showed that for "away from home" calling patterns, about one-third of the calls were "dial around," that is, used some form of access code dialing. We recently had the opportunity to speak with the author of this report, who now believes that the dial around percentage is closer to fifty percent. Clearly, the consumers are announcing the name of the carrier, a mandatory statement about the costs of the call should be made by any carrier whose rates exceed those considered acceptable by the Commission.

- It may be necessary to take the drastic step of imposing a rate cap on operator services. Such a cap could be at today's AT&T rates, or some percentage of those rates, maybe 115%.

These steps could be taken almost immediately, and would therefore immediately benefit the consumer.

The crux of the problem being addressed by BPP has been and continues to be excessive prices to an unsuspecting consumer. A more effective enforcement of the TOCSIA provisions will work to eliminate this problem, and further, will allow the third tier carriers to compete in this market, thereby further driving prices down, just as they have historically done in the direct dial long distance market.

History also tells us that as competition forces prices downward, closer to the cost of providing the service, the carriers will be forced to compete on terms other than price. The provision of enhanced services to the casual caller, such as message delivery and retrieval, is one strategy currently under development.

In summary, BPP is an idea whose time has gone. As politically pleasing as it sounds, it will simply cost too much and take too long to implement in order to benefit an ever-shrinking group of consumers. Effective enforcement of existing law, with the accompanying market competition will more effectively serve the consumer, ultimately delivering not only lower prices, but superior products.

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A Discussion of the Economic and Operational Impacts of Billed Party Preference

July 12, 1993

by
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Competition in the Long Distance Marketplace -- Today

Billed Party Preference was conceived to benefit the consumer -- to eliminate uncertainty about how operator-assisted calls are processed and how much they cost. It's difficult to determine the impact of BPP on these elements, however, without examining its impact on the telecommunications infrastructure, because the consumer's cost is related to the costs of the communications companies involved, and the operational limitations of these companies will determine the quality of the consumer's experience.

There are few generalizations to be made, though, since so many different types of companies take part in processing each call. It's important to fully understand what these companies look like to assess how BPP would affect them, their customers, and thus their market share. In this discussion, we are focusing on the third tier interexchange carriers, who, through low prices and excellent service, ensure that the advantages of competition in the long distance industry extend to secondary and niche markets.

Third Tier Carriers are the smallest players in the facilities-based interexchange carrier market; we define these carriers as those with less than 120 million in annual revenues. The FCC's Industry Analysis Division's *Long Distance Market Shares: First Quarter, 1992* generally divides carriers into three divisions: 1) AT&T; 2) MCI, Sprint and 12 major carriers; and 3) "others." These distinctions generally correlate to the our use of first, second, and third tier carriers. Using basic research data from the Industry Analysis Division, it is possible to make certain statements about third tier carriers as a group, including the nature of their markets, their revenues, and overall market share:

- Third tier carriers are typically regional carriers. Of the 361 long distance carriers purchasing equal access from LECs in March 1992, the largest percentage, 78.7%,(or 284 carriers) serve between 1 and 4 states; while only 6 carriers (1.7%) serve 45 or more states.[1]

- The number of third tier carriers continues to grow. FCC reports on the number of carriers purchasing switched access has surged from 163 in March 1986 to 378 in March 1992. Continued entrance into the interexchange carriers' market is supported by the number of carriers listed in *The Definitive List of Long Distance Carriers,* published by the Competitive Telecommunications Association (CompTel), which grew from a listing of 334 carriers in 1991 to 513 carriers in 1993.

- The market share of companies other than AT&T, MCI, and Sprint has grown from 2% in the first quarter of 1984 to 8.6% in 1988 and again to 12.2% in

[1] (*Summary of Long Distance Carriers*, Table 2 and Table 3)

1992[2]. Since 1984, the revenues generated by third tier carriers have increased from $414,000,000 to $3,765,000,000 by 1991, an increase of over 900%.[3]

Third Tier carriers generally enter the telecommunications market by offering services to the business community at prices significantly less than larger carriers. Once established, the companies may expand into other markets including residential services. A recent survey of its carrier members by CompTel reveals that many carriers plan to introduce enhanced services such as travel card (25%), operator services (21%), and residential services (14%). These new services will enable the third tier carriers to further increase their market share if they can provide services similar to the major carriers at competitive, i.e. lower, prices.

The ability of these carriers to compete is predicated on quality customer service, responsive product design, and competitive rates. A recent article in *Business Week* outlined the variety of long distance calling plans. The article emphasizes the variety of calling plans in the market which offer substantial savings:

> "[B]e prepared to shop: The race is no longer just among American Telephone & Telegraph, MCI, and Sprint. Other carriers, although not as heavily advertised, are aggressively going after consumers and small businesses, and they may be cheaper while offering competitive service.[4]

Companies that do not provide direct dial service, but focus entirely on providing operator-assisted calling are sometimes grouped with the third tier, especially when only operator-assisted services are under consideration, as in the case of billed party preference. The two types of companies are actually quite dissimilar, however. Third tier companies supply operator-assisted calling as a means to satisfy the needs of their existing customers; offering great customer service and lower prices only retains customers up to the point where the customer develops the need for a service that he can't get from his current supplier. Third tier companies have an established customer base to whom they can market operator-assisted calling, arrangements for network and facilities, and other economies of scale that aren't available to companies that provide only operator-assisted calling. It is particularly important in a discussion of operator-assisted calling, to differentiate between the companies who focus entirely on this market and whose pricing may therefore reflect the lack of these advantages, and third tier carriers.

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[2] (*Long Distance Market Shares: First Quarter, 1992*, Table 6)
[3] (*Long Distance Market Shares: First Quarter, 1992*, Table 5)
[4](*Business Week*, "Talk is Cheap -- With the Right Long Distance Deal," June 28, 1993, p. 130 E3)"

The Economics and Mechanics of Operator-Assisted Calling -- Today

To appreciate the impact Billed Party Preference would have upon the economic and operational elements of the competitive long distance industry, it is helpful to review the routing and billing of the calls that would be affected by BPP -- operator-assisted calls. These are usually calls placed by someone away from their own office or home. Examples include:

- A toll call made at the house of a friend or the office of a business associate when the caller doesn't want the call to appear on his host's phone bill.
- A call made from a hospital room, prison or college dormitory or other institution where billing calls to the originating number is blocked (or should be) by the serving telephone companies.
- A call made from a payphone by someone without pockets full of change.
- A call made from a hotel room, where, although billing to the room is allowed, it may be more expensive than operator-assisted calling.

A NOTE ABOUT CALLS MADE FROM HOTELS

For this discussion, we have chosen to illustrate our points using the example of calls made from hotels, but the points we make are valid for the other types of calls listed above. To facilitate the examples, we've included a copy of rate information and dialing instructions as supplied by a hotel (Exhibit I). These particular pages were made available to guests by a hotel in California, but our research indicates that the charges and instructions shown are typical.

It is interesting that, although TOCSIA requires the "posting" of this information in the room, it was actually included inside a book of miscellaneous data about the hotel, which was carefully stowed in the bottom drawer of a nightstand. As professionals in the telecommunications industry, we knew enough to look for it.

In all of the situations described above, the caller desires *alternative billing methods,* i.e. to be able to bill the call to an instrument other than the telephone number from which the call is made. He may have several options open to him, including

1. Charging the call to another telephone number, such as the one he is

IMPORTANT NOTE ABOUT "COSTS" AND "REVENUE"

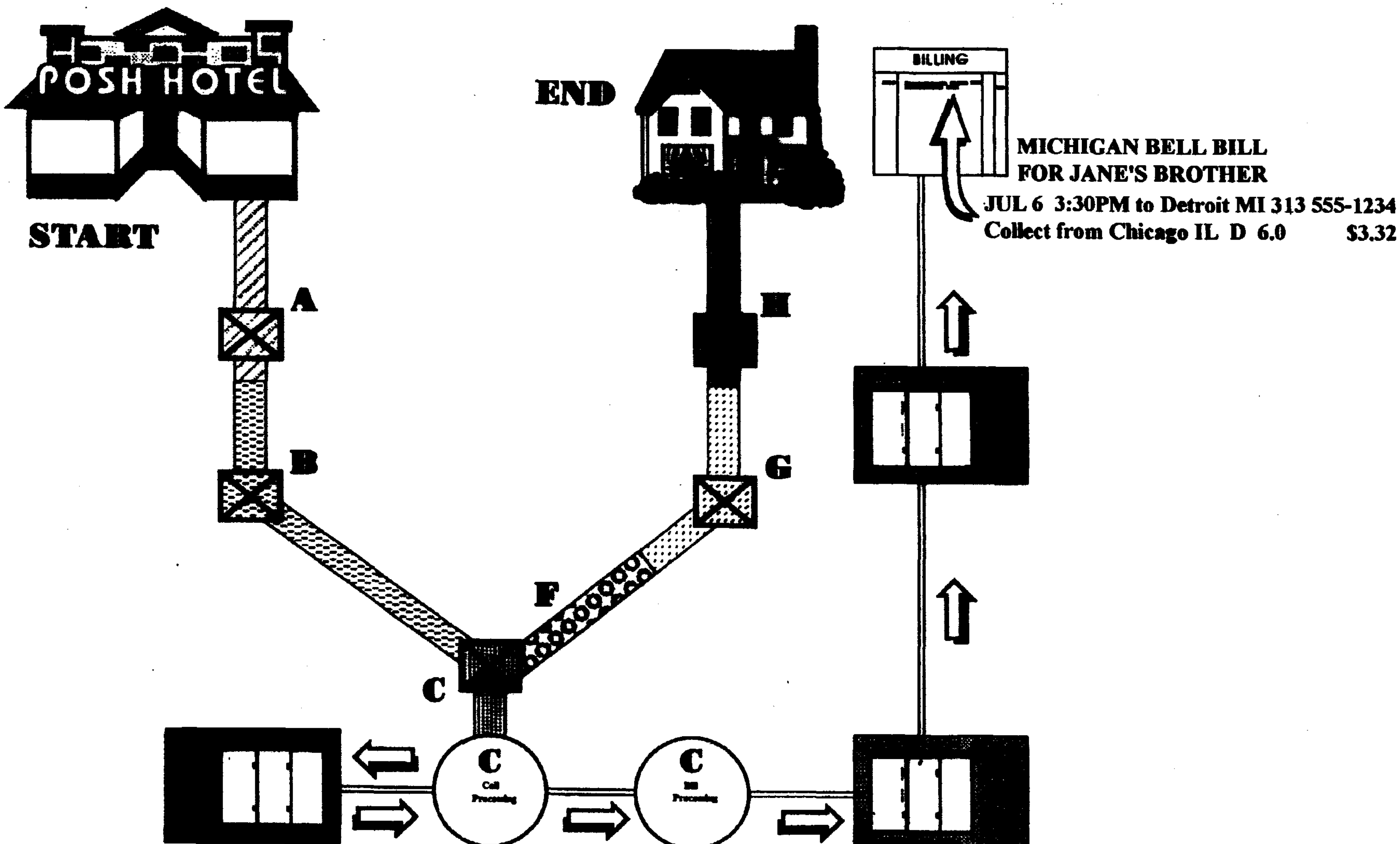
In this call example and the others following it, the word "Costs" is used to label *the monies paid out by the party to other parties for their part in this call.* It does not in any way reflect the actual cost the company incurs for their service portion, which would be loaded with the additional cost of things like operator labor, equipment, administrative and operational overhead, etc. Similarly, the word "Revenue" is used to label the monies paid to the party by other parties for its part in this call. Because the actual costs are not calculated, the actual net revenue cannot be stated.

The numbers we have used are based upon our own research and information from service vendors, and upon "average" numbers as published by various FCC reports, trade publications and other sources. In some cases, the data has been provided on a confidential basis, and so sources are not noted. The "parties" involved in the call are designed to be representative of their particular industry segment.

EXAMPLE #1: Charging the call to the called party's number - a Collect Call

At 3:30 one Tuesday afternoon, Jane Doe makes a long-distance call from her room in The Posh Hotel in Chicago, Illinois. She is calling her sister who lives in Detroit, Michigan, approximately 300 miles away. She dials "8" to access an outside line on the hotel telephone system, then dials "0" plus her sister's area code and number. She hears a "BONG" tone, then an announcement that "Dial-a-Call Long Distance" is providing the service. Jane waits a few seconds before a live operator comes on the line, saying "Dial-a-Call Operator. How may I help you?" Jane tells the operator that she wants to make a collect call. The operator asks for Jane's name, puts Jane on hold, then makes a call to the number Jane dialed. After about half a minute, the operator reports to Jane that no one answered the call, and asks whether Jane would like to make another call. Jane says no, and hangs up the phone.

A few moments later, however, Jane changes her mind and decides to call her brother, who also lives in Detroit, and so she goes through the same process using her brother's number. This time, Jane's brother answers the phone, and when the operator asks whether he will accept the charges for a collect call from Jane Doe, he replies that he will. The operator collects his name, thanks both parties and tells them to go ahead, and then is disconnected from the call. Jane and her brother talk for a little over five minutes before they hang up.



PARTIES INVOLVED IN THE CALL

A. Illinois Bell
B. Dial-a-Call Long Distance
C. Wholesale Provider
D. Validation Services Inc.
E. Operator Billing Company
F. Long Haul Network
G. Complete-a-Call LD
H. Michigan Bell

FIGURE 1: COLLECT CALL TODAY

START - *THE CALLER:* Jane Doe

Jane Doe has made an "average" operator-assisted call, to a location 300 miles away and lasting for 5.5 minutes. The ratio of one completed call to one uncompleted call attempt is also normal for operator-assisted calling.

Revenue - None.

Costs - Jane's hotel bill may reflect a "phone usage charge" assessed by the hotel. For the purposes of this example, we'll say that the charge is $.75 per call, with billing beginning after 36 seconds. $0.75

ANOTHER NOTE ABOUT CALLS MADE FROM HOTELS

The "phone usage charge" described above is the same as that described in our representative rate and dialing information sheet, Exhibit I (see paragraph N). Note that the charge is assessed after a certain number of rings, as measured by the hotel telephone system (paragraph H). The equipment may very well be measuring time rather than

A. *THE ORIGINATING LOCAL EXCHANGE COMPANY:* Illinois Bell

As the local access company, Illinois Bell provides telephone service to The Posh Hotel, completing local calls, and routing long distance calls to the appropriate interexchange company. In this case, Jane's call is connected to the Dial-a-Call network when the Illinois Bell switch determines that a) it is a long distance call, and b) Dial-a-Call has been selected as the hotel's long distance provider. The Illinois Bell circuits carrying the call from the hotel to Dial-a-Call remain in use for the duration of the call.

Costs - As originating network provider, Dial-a-Call must pay access charges to Illinois Bell. We've hypothesized $0.035 per minute for the two 50 second call attempts and for the 5.5 minute call . The Dial-a-Call circuits carrying the call will continue to be used for the duration of the call. $0.25

As the retail service provider, Dial-a-Call pays a commission on the call to The Posh Hotel. In this example, Dial-a-Call will pay the hotel 15% of the retail cost of the $3.32 call. $0.50

C. *THE WHOLESALE SERVICE PROVIDER:* Wholesale Provider Corporation

Once the call reaches the Wholesale Provider switch, the Wholesale Provider call processing system identifies the call, generates the "BONG" tone and plays a recording naming Dial-a-Call as the service provider. When Jane doesn't use the telephone keypad to enter any information, the system transfers the call to a manual operator station where a Wholesale Provider operator is prompted through the interaction with Jane. The call processing system checks internal and external databases to apply the treatment Dial-a-Call has specified, and to determine the validity of the billing information. The external database is provided by Validation Services, Inc. (See D. following).

After checking with Validation Services, the call processing system places the call to Jane's sister's home. The process for the second call is much the same, but the call is completed and the system automatically connects Jane and her brother together and disconnects from the call. As soon as Jane or her brother hang up, the call record will be transmitted from the Wholesale Provider call processing system to its data processing systems which will rate the call using parameters specified by Dial-a-Call. Once a week, Wholesale Provider submits the rated call records to Operator Billing Company, a billing

Revenue - As the service provider, the gross revenue to Wholesale Provider is the retail price of the call ($3.32) minus the billing and collection charges ($0.32) that will be withheld by Operator Billing Company $3.00

Costs - Wholesale Provider must pay several different parties:

Originating network provider, Dial-a-Call Long Distance - $0.075 per minute for allowing Wholesale Provider to use the Dial-a-Call network to origination two 50 second call set-ups and the 5.5 minute call $0.54

Retail service provider, Dial-a-Call Long Distance - 30% commission on $3.32 .... $1.00

Validation Services, Inc. - $0.06 each time a validation request was made to the external database, times two call attempts: $0.12

Terminating network provider, Long Haul Networks - $0.01 per minute for one 30 second successful completion attempt and one 5.5 minute call $0.06

Terminating switched network provider, Complete-a-Call Long Distance - $0.055 per minute for 30 seconds of set-up time and for terminating a 5.5 minute call $0.33

Total Costs: $2.05

D. *THE VALIDATION PROVIDER*: Validation Services, Inc.

The Wholesale Provider call processing system sends a data packet containing the call information to Validation Services, who then checks Michigan Bell data files to make sure that the number to which the collect call is being billed really exists, and isn't a payphone or invalid for any other reason.

Revenue - Validation Services, Inc., will charge $0.06 for each validation attempt. Since Jane attempted to bill calls to two different numbers, two validation attempts were made, even though one call was never completed $0.12

Costs - None.[6]

[6] Actually, Validation Services pays Michigan Bell for this access, but any affect that BPP would have on this is speculative and probably inconsequential.

F. THE BILLING CLEARINGHOUSE: Operator Billing Company

[redacted]

Revenue - Long Haul Networks will receive $0.01 per minute from Wholesale Provider for the two attempts, and 5.5 minutes for the call itself. Although the attempts took 50 seconds, only 30 seconds of termination is charged by Long Haul Networks since the first 30 seconds were spent in collecting the billing information and Jane's name.................. $0.065

Costs - None.

G. *THE TERMINATING SWITCHED CARRIER*: Complete-a-Call Long Distance

Complete-a-Call Long Distance is another regional long distance company, providing service in the Toledo/Detroit area, and with a switch in Toledo. Since the company already has established physical connections to the Michigan Bell switching centers to use in originating calls, Complete-a-Call has installed extra circuits to use in terminating calls for other interexchange carriers who do not have facilities in the area. Jane's calls will be connected from the Long Haul Networks facilities to the Complete-a-Call facilities in Toledo, where the Complete-a-Call switch will route the call to connect to the

END - *THE BILLED PARTY:* Jane's Brother

Because Jane made her call collect, the charges for the call will be included on the statement Jane's brother gets from Michigan Bell, his local telephone company. The charges will be on a separate page with a heading indicating that the page is provided as a service to Dial-a-Call and a phone number for billing inquiries will be included.

Revenue - None

Costs - The bill Jane's brother receives will include the detail for a call record including a $1.94 surcharge plus $0.23 per minute for 6 minutes (using whole minute billing increments).[7] $3.32

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[7] For purposes of this discussion, this call is shown rated at AT&T rates. In actuality, Dial-a-Call and The Posh Hotel might have negotiated commissions differently in order to be able to advertise a price break to the customer -- incentive not to "dial around" to AT&T, so that both the Hotel and Dial-a-Call forego commissions entirely.

Summary -- Example #1: Charging the call to the called number (Collect)

	Revenue
The Posh Hotel	
Revenue	$1.22
Costs	($0.00)
Net Revenue	$1.22
Illinois Bell	
Revenue	$0.25
Costs	($0.00)
Net Revenue	$0.25
Dial-a-Call	
Revenue	$1.54
Costs	($0.75)
Net Revenue	$0.79
Wholesale Provider	
Revenue	$3.00
Costs	($2.05)
Net Revenue	$0.95
Validation Services	
Revenue	$0.12
Costs	($0.00)
Net Revenue	$0.12
Operator Billing Company	
Revenue	$0.32
Costs	($0.22)
Net Revenue	$0.10
Long Haul Networks	
Revenue	$0.06
Costs	($0.00)
Net Revenue	$0.06
Complete-a-Call Long Distance	
Revenue	$0.33
Costs	($0.21)
Net Revenue	$0.12
Michigan Bell	
Revenue	$0.43
Costs	($0.00)
Net Revenue	$0.43

Costs

Jane Doe

Revenue	$0.00
Costs	($0.75)
Net Cost	$0.75

Jane's Brother

Revenue	$0.00
Costs	($3.32)
Net Cost	$3.32

EXAMPLE #2: Charging the call to a Bell Operating Company (BOC) Calling Card

This following example describes a call billed to a card issued by a Bell Operating Company (BOC). At 9:30 a.m. one Tuesday, Jane Doe, our caller from Example #1, makes another long-distance call, again from her room in the Posh Hotel in Chicago, Illinois. She calls her sister who lives in Detroit, Michigan, approximately 300 miles away. Jane dials "8" to access an outside line on the hotel telephone system, then dials "0" plus her sister's area code and number. She hears a "BONG" tone, then an announcement that "Dial-a-Call Long Distance" is providing the service.

Jane uses the keypad on the telephone to dial in the 14 digits of her BOC-issued calling card. Since Jane is from San Diego, California, her card was issued by Pacific Bell.

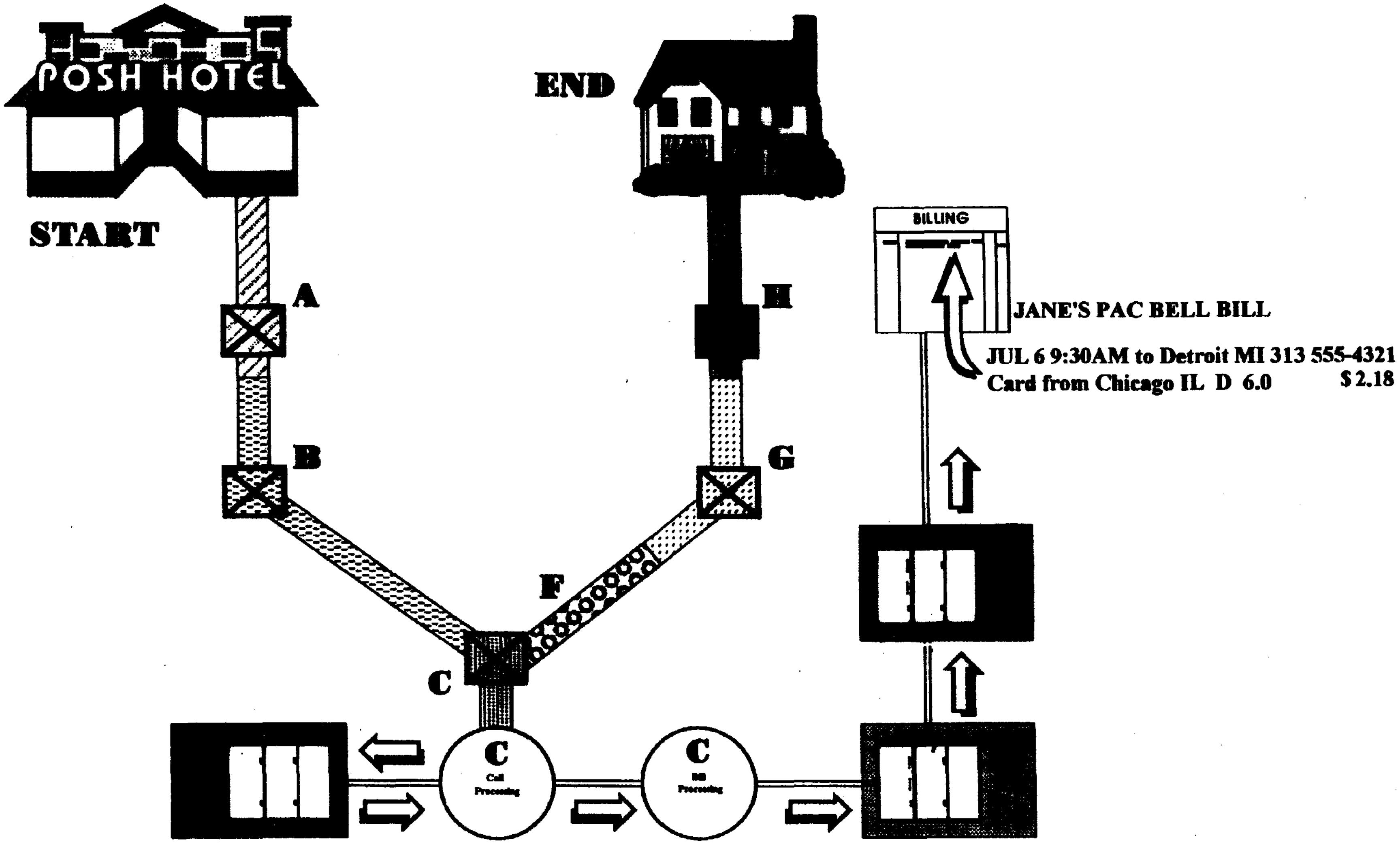
Jane hears a busy signal. She hangs up, but repeats the dialing process about five minutes later. This time, Jane hears the telephone ring once, and then her sister answers. Jane and her sister talk for about five-and-a-half minutes, then hang up.

A NOTE ABOUT REORIGINATION

If Jane had wished, she could probably have made a second call by pressing the octothorpe ("#") key for a couple of seconds when her call was complete. She would have been prompted to enter the new called number, but would not have had to re-enter her card number. This is called reorigination, or sometimes "serial dialing." The recognition of the "#" key and the resulting prompting would be provided by the same equipment -- that of the operator service provider -- that collected Jane's card number, not by the local telephone company (Illinois Bell).

If Jane had chosen to reoriginate to place a second call, a phone usage charge would not have been assessed by the hotel, because the phone system would not register the second call as anything other than a continuation of the first.

Especially following reorigination, some carriers offer enhanced services through special dial patterns. AT&T, for example, offers the ability to dial "#123" to access message delivery, in which the caller may record a message for later delivery.



PARTIES INVOLVED IN THE CALL

A. Illinois Bell

B. Dial-a-Call Long Distance